20 November 2002

Original: English

First regular session 2003
20 – 29 January 2003, New York
Item 5 of the provisional agenda
United Nations Office for Project Services

Report of the UNOPS Executive Director on the implementation of the UNOPS revised budget 2002

I. Introduction

1. The present report is submitted to the Executive Board through the Management Coordination Committee (MCC) of the United Nations Office for Project Services (UNOPS), pursuant to paragraph 9 of decision 2002/21 dated 27 September 2002. The report provides an update, as of 31 October 2002, on the implementation of the revised 2002 budget, including levels of delivery, income, expenditure and changes in the level of the operational reserve. UNOPS is currently operating within very tight margins for all business variables; risks of the kind normally associated with UNOPS conduct of business still remain through year-end. The report also describes the management actions being taken by UNOPS, under the overall guidance of the MCC, in both the short and long term, which are contemplated in the contingency plan (document DP/2002/35/Add.2), approved by the Executive Board in decision 2002/17, in order to ensure a balance between income and expenditure and put UNOPS on course for the restoration of the operational reserve to its appropriate level over time.

II. Situation and summary of business parameters as of 31 October 2002

2. Notwithstanding the significant difficulties faced by the organization in 2002 to align its income and expenditure – having reduced its budget by 17 per cent compared to actual 2001 expenditure, largely through staff reductions, including reduction of headquarters staff by 23 per cent – UNOPS has been able to stay on track with its project delivery targets. UNOPS staff must be recognized for this achievement. A downward adjustment in service income had to be introduced as a result of detected errors relating to rental income for UNOPS space at 820 Second Avenue, New York, and to reflect correctly what was a reduction in personnel costs, which had also been inadvertently forecast as

02-70611 (E)

service income. Increases in staff costs, which were explained during the second regular session 2002, are turning out to be larger than initially estimated. Staff separation costs that are chargeable to the operational reserve, however, are lower than last forecast. UNOPS has also identified some prior years' savings by canceling unliquidated obligations no longer considered valid. As of the end of October, factoring all actual income and expenditure, the calculated balance of the operational reserve is $2.5 million.

3. The financial status as of 31 October, as compared to the budget estimates for 2002 approved by the Executive Board, is presented in the attached table. An analysis of each business parameter follows and provides actual data and projected end-of-year levels. In view of the low level of the operational reserve and past experience with actual results against forecasts, it is considered prudent not to provide a single projection. For comparison purposes, therefore, UNOPS also provides what the levels would be should the pattern experienced in 2000 repeat (referred to hereafter as "comparator level").

Project delivery

4. As of 31 October, delivery under the projects portfolio reached $408 million, which is 97 per cent of the target for that date, assuming a linear delivery throughout the year. More importantly, UNOPS has remained on track throughout 2002, owing to its revised and more detailed planning methodology introduced in early 2002. UNOPS has thus far not experienced variations between estimates and actual results as in prior years. In addition, in 2002 UNOPS has vigorously monitored and adjusted prior years' unliquidated obligations on a monthly basis, thus decreasing the potential for large credits to offset project delivery in the last two months of the year. For the remainder of 2002, UNOPS will continue to exercise caution and monitor the delivery situation tightly to ensure that it is in a position to address any slippage that may occur in delivery immediately, especially for high risk or high dollar-value portfolios.

5. On the positive side, UNOPS normally experiences a surge in project delivery in the last two months of the year, as certain projects are traditionally active at this time, while there is also catching-up in the recording of expenditure incurred at project locations.

Income

6. As of 31 October, UNOPS has earned $28.8 million income for project delivery, which is 81 per cent of the annual target. UNOPS has earned $5.4 million from its services-only portfolio, of which $4.8 million is from services to the International Fund for Agricultural Development (IFAD) (75 per cent of original target). UNOPS has earned $0.6 million as other income (55 per cent of original target), for a total of $34.8 million as of the end of October. This amount represents 79 per cent of the target of $44.3 million total income in the approved budget, as per document DP/2002/33.

7. At this time, it is projected that, based on estimated project delivery of $503 million, the projected total income for 2002 will be $43.1 million. The comparator level would amount to $475 million, in which case the total income for the year would be $41.3 million.

Administrative expenditure

8. As of the end of October, UNOPS has incurred $36.7 million of administrative expenditure (83 per cent of the target of $44 million). Further to the indication by the Executive Director during the second regular session 2002, UNOPS has identified greater increases resulting from adjustments to personnel costs and identification of unanticipated increases in costs in some duty stations. As at 31 October 2002, UNOPS recurrent administrative expenditure exceeds current earned income by $1.9 million.

9. For 2002, it is now projected that total administrative expenditure will be $44.9 million. By year-end, with a projected income of $43.1 million, as indicated in paragraph 7 above, administrative expenditures are expected to exceed income by $1.8 million. Again, with the comparator level of $41.3 million in income, total administrative expenditures would exceed income by $3.6 million.

Staff separation costs

10. In document DP/2002/33, UNOPS had revised down its estimate for staff separation costs that would be directly chargeable to the operational reserve to $2.0 million. Since that time, a number of staff has been separated, while others have found positions elsewhere in the United Nations system. Actual costs as of 31 October are $1 million. UNOPS estimates that a maximum additional amount could be $0.6 million, for a total not to exceed $1.6 million. This cost could further decrease as affected staff is placed in other organizations.

Prior year savings

11. Similar to the extensive ongoing review of unliquidated obligations against projects, UNOPS is conducting a review of unliquidated obligations against the administrative budget. While an on-going exercise, to date, UNOPS has identified $400 000 of savings from obligations that are to be cancelled.

Level of the operational reserve

12. For 2002, the starting balance of the operational reserve was $5 million. Based on current levels of income and expenditure, including direct charges to the operational reserve for staff separations and credits from prior year savings, the calculated level of the operational reserve is $2.5 million as of 31 October 2002.

13. The year-end balance of the operational reserve for 2002 is projected to be $2.0 million. Again, for comparison purposes, should the pattern of 2000 be considered, the level of the reserve would be $0.2 million.

III. Revised estimates for 2002

14. There continues to exist a number of risk factors that could affect the achievement of targets:

(a) At this late time of the year, the ability of UNOPS to cover shortfalls from one project by implementing activities of another is limited;

(b) The UNOPS target includes several very large dollar-value transactions that, if not delivered, could not reasonably be covered with other transactions;

(c) UNOPS is also dependent upon project activities that are in high-risk areas susceptible to project delays or stoppages.

For these reasons, it is considered prudent to present the projected outcome as per actual data while also providing a comparator level for income and expenditure estimates, should the 2000 pattern repeat. Importantly, even if UNOPS achieves the project delivery target of $503 million for 2002, it will still not match its recurrent expenditure with sufficient income, owing to the reasons set forth in paragraph 8. This will have a further negative impact on the level of the operational reserve. At this stage, therefore, it is necessary to take a number of management actions as described below to enable UNOPS to address the imbalance between income and expenditure – if possible in 2002 but especially for 2003 and beyond. These measures are in line with the elements of the contingency plan approved by the Executive Board in its decision 2002/21, which foresees initiation of the plan when the level of the operational reserve is expected to fall below $2 million.

IV. Next steps

15. In view of the above, UNOPS is ready to implement the contingency plan (document DP/2002/35/Add.2) approved by the Executive Board in decision 2002/21. The following management actions are therefore being taken in order to overcome the imbalance that has existed in UNOPS between income and expenditure.

Actions affecting delivery and income in 2002

(a) UNOPS will update the MCC twice per month on actual income and expenditures;

(b) UNOPS is stepping up all opportunities to identify and carry out delivery in the current year in order to meet or exceed its current target;

(c) In line with the recommendations of the Board of Auditors, and as foreseen in the contingency plan, UNOPS has already begun renegotiating fees with clients; however, any renegotiated fee structures would most likely only affect future income levels and may not necessarily benefit the 2002 financial situation of UNOPS;

(d) UNOPS is implementing a mechanism to identify situations where clients' requests to delay or cancel projects previously contractually committed to UNOPS have resulted in costs to UNOPS and for which UNOPS will seek reimbursement. Already, for 2002, UNOPS has identified projects totaling $14.5 million that fall into this category and

UNOPS is currently reviewing those projects to determine the amount of loss of income that could be subject to negotiations with those clients;

Actions affecting expenditure in 2002

(e) UNOPS has frozen any administrative expenditure that does not contribute directly to delivery;

(f) UNOPS management is undertaking a de novo review of budget allocations to identify and implement further reductions in expenditure as called for, among other measures, by the contingency plan and is also confirming unliquidated obligations and surrendering those that are no longer valid;

Longer-term measures

(g) A task force has been created to analyze portfolios, review costs of services and setting of fees, and align income collection with service delivery and further address the imbalance between administrative costs and income;

(h) UNOPS is seeking new opportunities to increase business acquisition for 2003;

(i) UNOPS is also exploring the means for recovering increases in personnel costs that are unforeseen.

2002 income and expenditure projections
as of 31 October 2002
(in millions of United States dollars)

	Approved revised 2002 estimates	Actual as of October 2002	Projected as of end 2002*
Delivery			
- projects	503.2	408.0	503.0
Total delivery	**503.2**	**408.0**	**503.0**
Income			
Income from implementation of project portfolio	35.4	28.8	35.4
Income from "services only"	7.8	5.4	7.1
Other income	1.1	0.6	0.6
Total income	**44.3**	**34.8**	**43.1**
Administrative expenditure			
Recurring administration expenditures	44.0	36.7	44.9
Non-recurring administrative expenditures			
Total administrative expenditures	**44.0**	**36.7**	**44.9**
Movements on the operational reserve			
Operational reserve brought forward	5.0	5.0	5.0
Direct charge to operational reserve (to cover estimated staff separation costs)	(1.5)	(1.5)	(1.5)
Transfer to operational reserve	0.3	0.4	0.4
Transfer from operational reserve		(1.9)	(1.8)
Operational reserve carried forward	**3.3**	**2.5**	**2.0**

*For comparison purposes, drawing from 2000 experience, UNOPS would deliver $475 million, earn $41.3 million and the level of the operational reserve would be $0.2 million as of year-end.